



OFFICE OF LEGISLATIVE BUDGET REVIEW

The Regional and National Economic and Fiscal Forecast for 2009 and 2010

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The outlook for 2009 is grim. All forecasts surveyed are expecting national real GDP growth to be negative for both the first and second quarters of 2009 and to end the year with negative growth. The question is whether or not real GDP growth will become positive in the second half of 2009. This question hinges on when the Federal Stimulus funds will become available and how successful the initiative will be in generating jobs and inducing spending.

On a regional level, Nassau County's 2009 decline in real GDP is expected to be greater than that experienced throughout the nation. Moreover, Nassau County will shed employed residents and non-farm jobs throughout 2009. One potentially positive development is Governor Paterson's proposed expansion of New York State's sales tax base. This could mitigate some of the projected 2009 sales tax shortfall.

This paper details the current economic forecast for 2009 and 2010 both regionally and nationally. Projections are then made regarding the forecast economic impact on Nassau County revenues.

Real GDP

According to Moody's Economy.com, both regional and national real GDP are going to be negative throughout 2009. Chart 1 details the 2009 forecast by quarter. Real GDP is a measure of the goods and services provided within an economy. When it declines, it indicates that less goods and services are being provided and

therefore fewer jobs and personal income generated.

Chart 1

Forecast for Real GDP Growth by Quarter				
	Q1	Q2	Q3	Q4
Nassau	-2.8%	-3.0%	-2.7%	-1.7%
Suffolk	-1.8%	-2.2%	-1.9%	-1.0%
U.S.	-1.2%	-2.4%	-2.3%	-0.8%

Source: Moody's Economy.com

Other professional forecasters, such as the Mortgage Bankers Association (MBAA) and the Conference Board, are a bit more optimistic. They expect national real GDP to turn positive in the third quarter of 2009. Their projected positive growth in the second half of 2009 results in less negative annual growth. All professional forecasters are expecting positive real GDP growth for 2010. Chart 2 details these projections.

Chart 2

Professional Forecasts for National Real GDP		
	2009	2010
Moody's	-1.7%	2.0%
MBAA	-0.1%	3.3%
Conference Board	-1.5%	3.0%

Regional real GDP growth is expected to be more subdued than that experienced throughout the nation. In 2009, Nassau County is projected to record a 2.5% drop in real GDP. In 2010 real GDP growth for Nassau County is expected to rise 0.8%. Chart 3 details these projections.

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Chart 3

Annual Forecast for Real GDP Growth		
	2009	2010
Nassau	-2.5%	0.8%
Suffolk	-1.7%	1.4%
U.S.	-1.7%	2.0%

Source: Moody's Economy.com

Employment

Nassau County's current unemployment rate stands at 5.6%. Looking forward, the forecast for the regional and national labor markets is bleak. All areas surveyed are expected to record decreases in employed residents throughout 2009. Moreover, unemployment rates are expected to continue to climb after the declines in resident employment begin to ebb. This is due to the fact that as the labor market begins to pick up, residents who had dropped out of the labor market will re-enter thereby increasing the unemployment rate.

Chart 4

Nassau County Labor Market Forecast, Total Employed Growth and Unemployment %					
2009					
	Q1	Q2	Q3	Q4	
Total Employed	-2.1%	-2.5%	-2.5%	-2.0%	
Unemployment Rate	6.3%	6.9%	7.4%	7.7%	
2010					
	Q1	Q2	Q3	Q4	
Total Employed	-1.3%	-0.5%	0.3%	0.8%	
Unemployment Rate	7.9%	8.0%	7.8%	7.6%	

Source: Moody's Economy.com

Chart 4 depicts the current forecast for Nassau County employed residents and the unemployment rate. Nassau County is not expected to see its resident employment figures grow until the third quarter of 2010. The employment gains made in 2010 are not expected to make up for the losses experienced in 2009, leaving Nassau County with a net decrease in resident employment of 0.2% in 2010. Moreover, Nassau County's unemployment rate is expected

to climb through the second quarter of 2010, reaching a high of 8.0%.

Chart 5

Suffolk County Labor Market Forecast, Total Employed Growth and Unemployment %					
2009					
	Q1	Q2	Q3	Q4	
Total Employed	-1.6%	-2.1%	-2.2%	-1.7%	
Unemployment Rate	6.6%	7.2%	7.8%	8.1%	
2010					
	Q1	Q2	Q3	Q4	
Total Employed	-0.9%	0.0%	0.7%	1.3%	
Unemployment Rate	8.3%	8.4%	8.3%	8.1%	

Source: Moody's Economy.com

Chart 5 details the current forecast for Suffolk County's labor market. Suffolk County is expected to stop shedding employed residents in the second quarter of 2010 and see positive growth in resident employment starting in the third quarter of 2010. However, unemployment rates in Suffolk County are projected to climb even higher than those seen in Nassau County. The unemployment rate is also expected to peak in the second quarter of 2010 at 8.4%.

Chart 6 reveals the National labor market forecast. The country is expected to stop shedding employed residents by the second quarter of 2010. However, the country's unemployment rate is expected to reach a high of 9.1% in both the first and second quarters of 2010.

Chart 6

U.S. County Labor Market Forecast, Total Employed Growth and Unemployment %					
2009					
	Q1	Q2	Q3	Q4	
Total Employed	-1.8%	-2.2%	-2.1%	-1.4%	
Unemployment Rate	7.3%	7.9%	8.5%	8.9%	
2010					
	Q1	Q2	Q3	Q4	
Total Employed	-0.6%	0.2%	1.0%	1.5%	
Unemployment Rate	9.1%	9.1%	8.9%	8.6%	

Source: Moody's Economy.com

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Non Farm Jobs

Not only will there be fewer employed Nassau County residents in 2009, but there will be less local jobs for the unemployed residents to apply for.

Chart 7

Annual Forecasts for Non-Farm Jobs		
	2009	2010
Nassau	-2.8%	-0.3%
Suffolk	-2.3%	0.2%

Source: Moody's Economy.com

Chart 7 records the forecast for non-farm job growth in both Nassau and Suffolk Counties in 2009 and 2010. Both counties are expected to shed jobs in 2009. Nassau is also projected to lose jobs in 2010. The recently approved capital spending should mitigate some of the anticipated non-farm job losses.

Recent Development: Layoff Alternative

A recent Federal Reserve Survey found that in some parts of the Country companies are resorting to “pay freezes or reductions in compensation” in an effort to avoid layoffs. It is thought that pay freezes, pay reductions, reduced workweeks and altering schedules hurt less than layoffs. Some economists say even with such measures layoffs happen anyway. Timing becomes the main issue, if the economy recovers while these measures are implemented, layoffs may be avoided. If the economy continues to sour while the measures are implemented, layoffs may still occur.

Aversa, Jeannine, “Pay Freezes Spread – Even White House Hit”, seattlepi.nwsource.com, January 22, 2009.

Housing

The housing market, the catalyst for the economic crisis, is currently the one source of projected bustling activity. Since mortgage interest rates have dropped so precipitously recently, many homeowners will find it possible to obtain significant savings by refinancing their mortgages. Moody’s is expecting mortgage refinances to decline for the first two quarters of 2009 in both Nassau and Suffolk Counties and then register significant increases. In 2010, refinancing activity is forecast to decline from the second quarter through the end of the year on Long Island. The surge in mortgage refinancing should lessen the shortfall expected in County Clerk fee revenues.

Chart 8

Mortgage Refinances by Quarter, 2009 and 2010				
	2009			
	Q1	Q2	Q3	Q4
Nassau	-34.3%	-6.8%	18.1%	21.7%
Suffolk	-34.3%	-6.8%	18.0%	21.5%
	2010			
	Q1	Q2	Q3	Q4
Nassau	8.4%	-8.1%	-20.1%	-26.4%
Suffolk	8.3%	-8.2%	-20.1%	-26.3%

Source: Moody's Economy.com

OLBR sees a strong potential for the refinancing surge to commence in the first quarter of 2009, rather than the third quarter of 2009. This is due to both heightened current demand and the forecast decline in home equity. Currently, the Mortgage Bankers Association index of mortgage applications shows that refinancing demand is at a five and a half year peak. Loan requests have increased 200% from just two months ago.¹ Not only are individuals currently seeking to refinance, but if they do refinance now they might not have the requisite equity in the future since

¹ “Mortgage Applications Surge”, CNN/Money.com, January 14, 2009.

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home sales prices are projected to continue to decline throughout 2009. By the third quarter of 2009, many homeowners will not have the home equity necessary to refinance, especially since credit standards are high. According to Marc Savoy, a mortgage broker with Pacific Mortgage Consultants, “Lenders chart a premium based on how much equity you have. If you start climbing above 80 percent equity, they charge you for it, making it so expensive that it’s not worth it to refinance.”² The current “pull-through rate”, the percentage of applications that results in an actual loan is less than 50 percent. Some in the industry see the pull-through rate at 25%.³

Lower mortgage interest rates are not expected to entice buyers to the market on Long Island until 2010. By year end 2009, mortgage originations in both Nassau and Suffolk Counties are projected to decline 31.7% from 2008’s level. Chart 9 on the following page details these projections on a quarterly basis.

Chart 9

Mortgage Originations by Quarter, 2009 and 2010				
2009				
	Q1	Q2	Q3	Q4
Nassau	-47.9%	-36.4%	-21.5%	-8.0%
Suffolk	-47.4%	-36.3%	-22.0%	-8.6%
2010				
	Q1	Q2	Q3	Q4
Nassau	1.3%	6.1%	8.6%	10.5%
Suffolk	0.8%	6.0%	8.9%	10.8%

Source: Moody's Economy.com

Mortgage originations are expected to record positive growth throughout 2010 on Long Island. By year end, mortgage originations in both Nassau and Suffolk Counties are projected to increase 6.6% from 2009’s level.

² Said, Carolyn, “Refinancing Eludes Many as Rates Fall”, SFGate.com, January 18, 2009.

³ Same as above.

Even though, home sale volumes are expected to pick up 2010, home prices are not forecasted to rise on Long Island during the 2009 to 2010 time period. From an annual perspective, Nassau County home prices are projected to fall 17.2% in 2009 and 5.9% in 2010. The declines in Suffolk County are projected to be 16.8% in 2009 and 5.7% in 2010. These projections are depicted in Chart 10 on a quarterly basis.

Chart 10

Median Home Sale Price Changes by Quarter, 2009 and 2010				
2009				
	Q1	Q2	Q3	Q4
Nassau	-16.2%	-18.3%	-18.3%	-15.9%
Suffolk	-15.8%	-17.9%	-17.9%	-15.6%
2010				
	Q1	Q2	Q3	Q4
Nassau	-11.8%	-7.2%	-3.2%	-0.7%
Suffolk	-11.6%	-6.9%	-3.0%	-0.4%

Source: Moody's Economy.com

Prices

Since sales tax collections are a function of both price and quantity, when prices increase, all else equal, County sales tax collections should rise as well. Since regional prices are expected to increase marginally in 2009, there should be no price appreciation boost to County sales tax collections. In 2010, regional consumer prices are expected to rise 2.9%. This price appreciation should contribute to positive sales tax growth in 2010. Chart 11 details the regional and national forecast for consumer prices.

Chart 11

	2009	2010
Regional	0.6%	2.9%
National	0.9%	2.6%

Source: Moody's Economy.com

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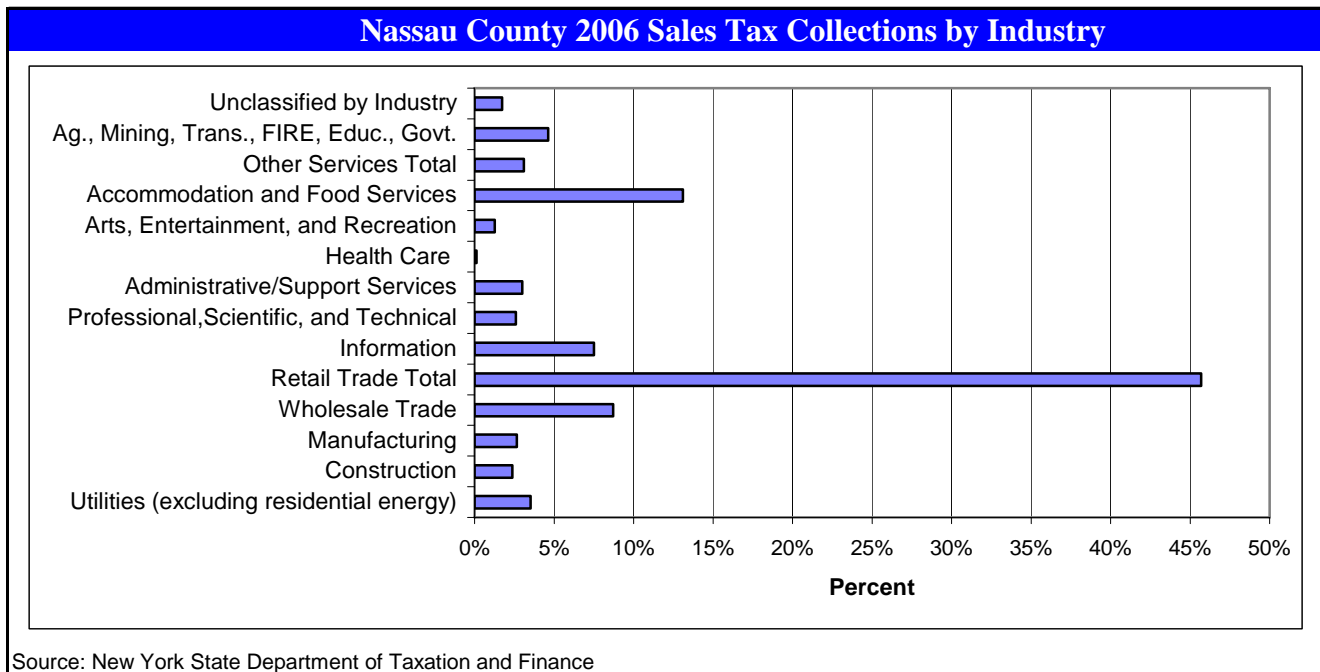
County Revenues

The previously detailed economic forecast is expected to put downward pressure on 2009 County sales tax collections and County Clerk fees.

Given the current economic forecast for Nassau County, that resident employment will fall by 2.3%, GDP by 2.5%, retail sales by 8.3% and personal income by 3.6% in 2009, County sales

tax collections should fall somewhere in the negative 4 to 8 percent range from the year-end 2008 level. The anticipated decline in retail sales will have a severe impact on County sales tax collections. In 2006, the most current data year available, retail sales represented 45.7% of all Nassau County taxable sales. Chart 12 details 2006 County sales tax collections by industry.

Chart 12



Should the proposed New York State sales tax base extension pass, as much as 3% could be removed from the worst case scenario. Current proposals seek to make personal and credit services, entertainment-related spending, transportation-related spending, and cable and satellite television and radio spending taxable. Using New York State budget figures and extrapolating, it was found that if the proposal is approved and Nassau collects sales tax on the previously detailed items for seven months, Nassau County would collect additional sales

tax in the \$23.6 million to \$31.5 million in 2009.

It should be noted that the tax base expansion still requires State approval. Secondly, assuming that the expansion is approved by April 1, 2009, all vendors must be notified and cognizant of the proper method for collecting and submitting tax collections by June 2009. Lastly, the projected amounts may have a large standard error attached to them since there are no historical collections on which to base the forecast amount.

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Given the current 2010 economic forecast for Nassau County, that resident employment will decline by 0.2%, GDP will rise by 0.8%, retail sales will increase by 3.3% and personal income will grow by 1.2%, County sales tax collections should remain unchanged or record positive growth in the 0 to 2 percent range in 2010 from the year end 2009 level.

Approximately 70% of County Clerk fees are a function of real estate transactions. The anticipated surge in demand for refinancings should compensate for some of the slowdown in originations. Since refinancings and originations are forecast to record significant annual declines in 2009, it is possible that 2009 County Clerk fee revenues will fall short of the adopted budget by \$3.0 to \$6.0 million.

Conclusion

The economic forecast for Nassau County in 2009 is ominous. There is hope that the federal stimulus package and New York State sales tax expansion will create jobs, spur on demand and enable the County to mitigate some of its projected shortfall.

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